

MICRO ENTERPRISES – AN UNSEEN ENTITY IN PUBLIC PROCUREMENT POLICY

by *Davis Paul, McKeivitt David, Flynn Anthony*

1.

As a domain within the social sciences public procurement continues to grow as its research foci reflect contemporary policy and practice trends (Thai, 2001). Public procurement is said to operate within a 'multi-stakeholder procurement environment' (Erridge, 2007, 2009) and is discussed, *inter alia*, in terms of 'buying social justice' (McCrudden, 2007), sustainability (Nijaki and Worrel, 2012; Preuss, 2009; Walker and Brammer, 2009), labour standards (Howe and Landau, 2009), promoting entrepreneurship (Preuss, 2011) and market competition (Caldwell et al, 2005). Its relationship to SMEs is the subject of intense interest and numerous studies have sought to identify the precise challenges faced by SMEs in tendering for public sector contracts (Cabras, 2011; Fee, Erridge and Hennigan, 2002; McManus, 1991) as well as the effectiveness of policy interventions designed to facilitate SMEs (Anglund, 1999; Kidalov and Snider, 2011; Loader, 2005). It has increasingly come to assume strategic connotations (Quayle, 1998; Murray, 2001; Gianakis and McCue, 2012) as elected representatives, policy makers, and state agencies attempt to leverage it in pursuit of their own goals. Not that these developments are altogether new. Historically, understanding of public procurement's role was by no means limited to the purchase of goods and services (McCrudden, 2007; Qiao, Thai and Cummings, 2009). Present day arrangements represent a continuation of this trend.

1.1

Academic treatment of public procurement also reveals a degree of wariness and circumspection over its trajectory. In particular, concerns have been expressed over public procurers having to contend with what Morgan (2008) labels 'regulatory ambiguity'. By this Morgan refers to the contradictory objectives or 'competing agendas' (Pickernell et al, 2011) that are imposed on public sector organisations by regulators, transnational organisations, legislators and professional associations. Adopting a similar

perspective Schapper, Veiga and Gilbert (2006) speak of a 'conformance-performance tension' afflicting public procurers who are simultaneously expected to deliver optimum value for money while adhering to an ever growing number of procedures and protocols. Likewise, Matthews (2005) suggests that efforts to make procurement a more strategic function across the public sector are vitiated by the pre-eminence of procedural rationality. Against this backdrop Prier and McCue's (2009) charge of public procurement having a 'muddled definition' rings true. The potential for conflict between national prerogatives and international laws and trade agreements is also problematic. Arrowsmith (1995) examines how moves to a single and integrated market in public procurement across Europe have circumscribed Member States' prerogative to deploy procurement in their own national interests. Bovis (1998) explores the unintended consequences to the public sector and to suppliers from the liberalisation of public markets across the European Union while Fee (2002) probes the effects of national and international regulations on the socio-economic goals of public procurement. Thus, contemporary scholarship reflects not only the increasingly ambitious role of public procurement but also its many contradictions.

2.0 Irish context

2.1

In Ireland, as in other jurisdictions, public procurement constitutes a focal point around which individuals and groups come together to pursue their own interests and goals. A perusal through the print media and government press releases reveals very quickly how public procurement means different things to different people. For some actors procurement is interpreted in 'value for money' terms - a potential source of cost savings for the exchequer. For other actors public procurement is understood as a mechanism to support domestic firms and industry; still other actors frame it as an opportunity to promote environmental sustainability, or even to tackle unemployment and social exclusion. While the global financial crisis of 2007 and the subsequent emphasis on fiscal consolidation and public sector reform have added salience to debate on the role and meaning of public procurement (Murray, 2009), public procurement has long been the subject of competing interpretations as well as the locus of competing interests. Argument over what public procurement means, what role it should play in public administration, and whose interests it should serve is nothing new. Research engagement with this topic has been limited, however, and there remains a dearth of scholarship on the historical de-

velopment of public procurement. Owing to their numerical dominance, dispersal across almost all industry sectors, and local market focus, small and medium-sized enterprises (SMEs) have a central role to play in meeting the supply needs of public sector organisations.

2.2

Reports of SMEs' frustration with the resource demands public tendering systems make—certainty of payment, prompt payment, long-term opportunities for growth, and reputation enhancement (Bovis, 1996; Fee, Erridge and Hennigan, 2002; Loader, 2005). The potential-performance gap that characterises SME involvement in public procurement has led to sustained investigation of the factors that inhibit SMEs in competing for and winning contracts with public sector organisations (Loader, 2013). It has also stimulated a series of political struggle to deal with the procedural hurdles, administrative complexity, and the time and human resource demands that even low value public procurement competitions entail (Cabras, 2011; Flynn et al, 2013; Greer, 1999; McManus, 1991). The conclusion to be drawn from these and related studies is that the very character of public sector tendering – a mix of bureaucracy and legalism - militates against SMEs' chances of success. In comparison to the superior resources, brand recognition, and political power of large firms, SMEs are understood to operate at a competitive disadvantage. Commenting on the public procurement policy landscape in both the United States and Europe, Kidalov and Snider (2011) reason that the on-going rollout of 'SME-friendly' policies only serves to confirm how tendering remains hugely problematic for SMEs. More pointedly, by their very presence 'SME-friendly' policies are an admission of market failure.

2.3

Empirical focus on the challenges SMEs encounter when tendering for public sector contracts has yielded valuable insights. It has revealed how the economic 'rules of the game' differ between the public and private spheres of the economy and why SMEs often struggle to establish themselves in the public sector marketplace as a result. But it has also come with a downside. In highlighting SME disadvantage relative to large corporations, there has been a tendency to overlook diversity within the SME population and its implications in the context of public sector tendering. Excepting a limited number of studies (Karjalainen and Kemppainen, 2008; McKeivitt and Davis, 2013; Pickernell et al, 2011), SMEs are typically understood and presented as a homogeneous population of enterprises possessing equal capabilities, sharing similar objectives, and facing challenges of equal ma-

gnitude. This issue has not gone unnoticed, as when Morrissey and Pit-taway (2006:280) in their review of SME purchasing opine that ‘....all of the studies reviewed assume homogeneity, that the motives underpinning practices are the same, and that all SMEs can be grouped together’. Notably, the same authors predict that SME purchasing practices are likely to vary across industry sectors and between SME size groups. In spite of such observations, public procurement and supply chain research is replete with assumptions of SME homogeneity. Cambra-Fierro and Polo-Redondo (2008), for example, probe differences between SMEs and large firms in how they manage their supply chain relationships but do not countenance differences within the SME population. Along similar lines, Baden, Harwood and Woodward 1995; Bovis, 1998; Clarke and Moutray, 2004; Kidalov and Snider, 2011, 2013). Implied in much of scholarship is a public tendering system that deliberately or otherwise privileges large firms over SMEs. Evidence from across a range of jurisdictions describes how SMEs often (2011) assess the impact of buyer expectations over environmental and social responsibility standards on SMEs. They do so, however, absent of consideration that such expectations might differentially impact SMEs depending on their size or other organisational characteristics.

2.4

It is not only in academic research that a simplistic and generic impression of SMEs as tenderers obtains. Assumptions of SME homogeneity are equally prevalent in the formulation of public procurement policy. The European Commission’s (2008) ‘European Code of Best Practices Facilitating Access by SMEs to Public Procurement Contracts’ is intended to make public sector tendering more conducive to SME participation. Its object of interest is the SME even though data on the award of contracts at EU level has consistently shown that the smallest SME subgroup, micro-enterprises, fare worse than small or medium-sized enterprises in the number and financial value of contracts won (GHK, 2007, 2010). ‘SME-friendly’ policies promulgated at EU member state level assume similar stances, making no distinction between SMEs size, age, sector, technology, and growth intentions. To give but two examples, policy in Britain speaks of ‘accelerating the SME economic engine through transparent, simple and strategic procurement’ (Glover, 2008) while in Ireland emphasis is placed on ‘creating a level playing field’ for SMEs to compete for public sector contracts (Department of Finance, 2010). Evidently, policy makers and elected representatives at both national and supranational level have yet to look beyond the SME in their efforts to re-balance public procurement in favour of smaller and newer enterprises.

2.5

Prevailing assumptions of SME homogeneity in public sector tendering begin to look increasingly untenable on closer inspection. As a targeted intervention ‘SME-friendly’ policy is unique in having near universal application to the enterprise population. In Europe, for example, ‘SME-friendly’ policy is applicable to over 99 percent of enterprises. Its breadth of coverage should give pause for thought, especially over its ability to appreciably impact the functioning of the public tendering system and the experience of small firms therein. Secondly, to assume SME homogeneity in the context of public procurement is to diminish the role played by organisational factors such as size, industry sector, market focus, and age profile. It is empirically established that the SME population is diverse, being comprised of firms of different characteristics, abilities and motivations (Hamilton, 2012; Mir and Feitelson, 2007; Smallbone, Leigh and North, 1995; Storey, 1994). Moreover, SMEs are owned and managed by people holding not always similar aspirations or goals, with archetypes ranging from the ambitious entrepreneur to the ‘lifestyler’ business owner (Fillis, 2004). In biological terminology the SME epithet approximates more to a genus than a species. Therefore, not to recognise and make allowance for SME diversity in public sector tendering runs contrary to extant theory and empirical evidence in the SME field.

2.6

The main argument of this paper is that research and policy at the SME-public procurement interface is remiss in treating SMEs as a singular, monolithic entity and rendering differences within the SME population all but moot. Pett, Wolff and Sie (2012:49) describe this as the ‘insidious assumption of homogeneity’, a consequence of defining SMEs against large enterprises and accentuating the disadvantage of the former when competing with the latter. Not that this simple dichotomy of SMEs versus large enterprises is unique to public procurement. As Torres and Julien (2005) have argued, thirty years of delineating small firms from their larger counterparts has led to the exaggeration of SME commonalities and the downplaying of SME heterogeneity in management research generally. Eschewing the SME versus large corporation dichotomy, a more nuanced interpretation of SMEs as public sector tenderers is aimed for here.

2.7

In particular, this paper concentrates on the role that firm size plays in influencing SME tendering. Apart from size, organisational variables in-

cluding sector, age, and ownership structure are potentially useful. However, parsing SMEs' behaviour and outcomes by size is among the most common, peer-accepted approaches and is highly practical for the purposes of survey-based research (Beck, Demircuc-Kunt and Maksimovic, 2006; O'Regan and Ghobadian, 2004).

2.8

The envisaged role for public procurement goes beyond securing goods and services in the most economical way to include concern for myriad socio-economic issues. This line of inquiry finds its fullest expression at the intersection of SMEs and public sector contracting. Leveraging procurement expenditure in the interests of SME growth and professionalization has been a feature of the economic policy landscape for some years, as evident in the European Commission's (1990) 'Promoting SME Participation in Public Procurement in the Community'. Behind the SME agenda in public procurement is an attempt to correct for a perceived bias towards large corporations (Anglund, 1999). Moreover, the SME-public procurement nexus is but one part of an overarching State support strategy for SMEs (Beaver and Prince, 2004) and has latterly come to be associated with ideas on 'joined-up' governance (Downe and Martin, 2006) in which public procurement policy and practice are aligned to enterprise goals (Preuss, 2011).

2.9

Not surprisingly, leveraging public procurement for the benefit of SMEs has taken on greater importance in the wake of the 2008 financial crisis and its adverse impact on SME growth and survival rates. To put the effects of the financial crisis into perspective, production output by the European population of SMEs declined by 5.5 percent in 2009 compared to 2008 and an estimated 3.25 million SME jobs were lost between 2009 and 2010 (EIM, 2010). This challenging economic climate prompted calls for more public sector contract opportunities to be made available to SMEs so as to arrest the fall in output and the haemorrhaging of jobs (Murray, 2009). It also provided the backdrop for renewed policy efforts to reduce, if not eliminate, the administrative and procedural barriers believed to inhibit SME participation in the marketplace for public sector contracts, most recently enunciated in the Single Market Act IP/11/469 (European Commission, 2011).

2.10

Drawing on data from over four thousand SMEs active in a national public procurement market, this paper examines if size influences SME

tendering. Overall, size is shown to significantly influence SME tendering. The implications of the results are manifold. They suggest that issues surrounding resource disparities, propensity to bid, and success rates are just as salient within the SME population as they are between SMEs and practice trends (Thai, 2001).

2.11

The findings also raise searching questions over the efficacy of ‘one-size-fits-all’ policies designed to augment SMEs’ ability to tender for public sector contracts. Specifically, what positive impact can ‘SME-friendly’ policy have on its intended targets if significant differences exist between micro, small and medium-sized SMEs in their tendering abilities and behaviours? The remainder of this paper is structured as follows. The next section summarises the trajectory of research on SMEs and public procurement to date. The relationship between size and SME tendering resources, behaviours, and outcomes is then examined and hypotheses are articulated. This is followed by a description of the research design, the data collection method, and survey respondent characteristics. The results are then presented and discussed. In the final section the implications of the findings for research and policy-practice are explored.

3.0 SMEs and public procurement

3.1

The evidence from across a range of jurisdictions suggests that the very nature of public sector tendering and SME resource limitations work in combination to stymie SME participation and reduce their chances of success.

3.2

As conveyed above, studies undertaken to date have paid particular attention to the barriers experienced by SMEs when competing for public sector contracts. In turn, this has shaped the trajectory of contemporary procurement policy, which is geared towards enabling SMEs to better compete for public sector contracts, but without going so far as to discriminate in their favour (Kidalov and Snider, 2011). Yet, beyond it being established that SMEs experience difficulties of a greater magnitude than large firms when tendering, little is known on SME participation in the public sector marketplace. Such is the emphasis on SME disadvantage that more fine-grained treatment of SMEs’ status as tenderers is all but absent. In spite

of occupying a central position in research and policy discourse on public procurement, SMEs' role as tenderers remains under-researched and poorly understood. Withey (2011), for example, notes that notwithstanding their prominent position, there is a dearth of empirical study on SMEs' attitudes toward public sector contracting. This is a serious omission in both the small business and public procurement academic domains. It is also one that motivates this paper to move beyond generalisations of SME disadvantage and test for variation in tendering behaviour within the SME population. Towards this end, the relationship between size and SME public sector tendering is explored and hypotheses are put forward for testing. These are subject to elaboration in the next section.

4.0 Size and SME public sector tendering

4.1.1

The relationship between firm size and SMEs' resources for public sector tendering warrants a greater degree of scrutiny than research has allowed for up to this point. Among the few studies that have disaggregated SME tendering by size, Karjalainen and Kemppainen (2008) found that possessing the requisite legal expertise and administrative capacity to tender successfully constituted more of a problem for micro-enterprises than their small or medium-sized counterparts. Tangential to these findings, research on SME tendering in the EU market for public sector contracts suggests that micro-enterprises are "more vulnerable to the overall administrative burden of the procedure and late payments" but that "there is barely any variance between the opinions of large and medium-sized, and only a little between large and small enterprises" (GHK, 2010:51). However, it has yet to be determined if size is a significant influencing factor on other relevant dimensions of SME tendering capacity, such as experience in negotiating the public contracts system or the number of employees ordinarily involved in submitting bids. Furthermore, the possibility that size is associated with SMEs' willingness to avail of training directly related to developing skills for success in public sector tendering remains untested. While SMEs are shown to be reluctant to take advantage of training opportunities (Marlow, 1998; Patton, Marlow and Hannon, 2000), it is unclear as to how this plays out between SMEs of different sizes and within a public procurement context.

4.2 Size and SME Tendering Behaviour

4.2.1

As with size and SMEs' resources for tendering, the relationship between size and tendering behaviour is something of a 'black box'. Hence, questions remain outstanding on whether SMEs of different sizes exhibit similar patterns of tendering behaviour. Of relevance here is the annual number of public sector tenders submitted and the average value of contract sought.

4.2.2

SMEs' reported difficulties with obtaining feedback from public buyers are well documented and stem from a number of factors, including SME hesitancy in approaching public sector organisations, a lack of business nous, and poor awareness of feedback entitlement and public buyers' legal obligations in this regard (Flynn et al, 2013). While obtaining feedback appears to present more of a challenge for micro- enterprises than small or medium-sized enterprises (GHK, 2010), the impact of size on SMEs' likelihood of seeking feedback from public buyers has not been subject to empirical testing. The adoption and utilisation of information and communications technology (ICT) is one area in which SME size is shown to play a significant role. Foregoing research has found that SMEs with less than 50 employees have lower rates of broadband adoption than SMEs with greater than 50 employees (Arbore and Ordanini, 2006) and experience greater constraints in enterprise resource planning (ERP) system adoption (Laukkanen, Sarpola and Hallikainen, 2007). Similar to the above, micro-enterprises are shown to make less use of the internet for managing their supply chains compared to either small or medium-sized firms (Levenburg, 2005). In addition, owner-managers of micro and small firms report less positive attitudes to the use of technology for communication than larger firms (Admiraal and Lockhorst, 2009) and are less competent in ICT usage (Pett, Wolff and Sie, 2012). Hence, size appears as a significant influencing factor for SMEs on ICT adoption and usage. As an extension to this line of inquiry, the relationship between size and the extent to which SMEs identify public sector contracts online is deserving of testing.

4.3 Size and SME Tendering Success

4.3.1

The under-representation of SMEs in public procurement is widely acknowledged and attributed to a range of inter-connected issues and

circumstances discussed previously. Available data on the distribution of contracts at European Union level shows that SME performance levels are inferior to larger corporations and micro-enterprise performance levels are lowest of all enterprises size types (GHK, 2007, 2010). While analysis of the distribution of high value contracts advertised on OJEU provides some insights into the role of size on SME success rates, no examination has been carried out on size as a factor in explaining SME performance variation in national public procurement markets.

5.0 Data collection

5.1

Data on SME tendering activity was drawn from the Irish public sector marketplace. The data gathering process involved electronically surveying suppliers registered on Ireland's national public procurement portal. Each registered supplier received an email request to participate in the research as well as an embedded link to the survey. Adopting this approach ensured that the research population of interest was covered. A non-probability sample was used as it was not possible to generate a sample frame of SME suppliers competing in the public sector marketplace a priori. The exploratory nature of the research, involving testing the relationship between size and SME tendering, makes a non-probability or convenience sample acceptable (Henry, 1990). Previous to its distribution the survey instrument was piloted with 20 Irish SMEs active in public sector tendering. Their observations were noted and, where appropriate, alterations to the survey instrument were made to improve its accuracy and applicability to SME suppliers. Using a combination of rating scales and multiple choice questions the survey instrument was designed to capture information on SMEs' tendering resources, behaviours, and outcomes. Data on SME size, sector, age, geographic location, and market focus was also obtained. Consistent with best practice guidelines for survey-based research recommended by Dillman (1991, 2007), every effort was made to maximise the returns and minimise the costs to the survey population. This was done through attention to instrument design and layout, precise questioning, and clearly marked sections. Having a respondent-friendly survey instrument was deemed very important as response rates in supply chain research are shown to be in steady decline (Melnyk et al, 2012).

5.2 Research Context

5.2.1

The Irish public procurement marketplace offers a suitable setting for investigating SME tendering activity. SMEs make up over 99% of the enterprise population in Ireland. More so again, micro-enterprises are numerically dominant, accounting for approximately nine out of ten of all firms (Small Business Forum, 2006). Economic trend data produced by the European Commission shows that this same SME population was buffeted by the 2008 international financial crisis (European Commission, 2011a). Between 2007 and 2010 SMEs' contribution to the Irish economy fell five percentage points from 53 percent to 48 percent, SME employment fell by 15 percent and final output plummeted by 18 percent. These adverse economic circumstances galvanised efforts to expand the number and range of public sector contracting opportunities available to SMEs. The award of public sector contracts came to be viewed as a direct means of palliating the effects of the recession on Irish-based SMEs. To promote greater SME participation in public procurement a series of reforms were enacted in 2010 by the Department of Finance. Their purpose is to lower the transaction costs incurred by SMEs when tendering for public sector contracts. Notable among the reform measures is a reduction in the threshold for the open advertising of contracts from €50,000 to €25,000. Other measures involve the use of more proportional financial and insurance capacity criteria by public buyers, breaking contracts into lots where practical and financially feasible, and facilitating SME consortium bids. Collectively, these measures are designed to creating a 'level playing field' for SMEs to compete for public sector contracts. In sum, the Irish public procurement marketplace has and continues to undergo considerable change. The financial crisis of 2008 and its aftermath have meant that more and more SMEs are looking to the public sector marketplace for growth opportunities. At the same time a series of initiatives and policies have been enacted to make it easier for SMEs to identify, bid for and possibly win public sector contracts.

5.3 Results

5.3.1

2012 marked the first instalment of the Research Series in which a national survey of public procurement in Ireland was undertaken. This provided a baseline of the public procurement marketplace and actors therein. Leading on from this stage a second national survey was carried out in

early 2013. Its aim was to chart the behaviours and experiences of both procurers and suppliers as well as to probe further into contemporary issues of concern for public procurement. Coming out of the research is a much clearer picture of the public procurement landscape in Ireland. For example, we can now state with a degree of confidence the characteristics of the supplier population in terms of size, turnover, and market focus. A pattern is also starting to emerge on the attributes and behaviours of different size suppliers.

5.3.2

We are also much better informed on who is procuring in public sector organisations, how they procure, and the extent to which they are implementing policy recommendations and reform initiatives. The Research Series brings to public procurement what was previously missing: reliable data on the form and functioning of the marketplace for public sector contracts in Ireland. It allows for more informed opinion and analysis of where we currently are and where we should be going in terms of policy and practice. Participation rates for the 2013 survey surpassed 2012, indicating growing interest from all stakeholders in creating a more effective and smarter procurement system.

5.3.3

The Research Objectives are outline in Table 1 below.

Tab. 1 - Response objectives

Suppliers
<i>Profile</i> supplier firms, Irish and international, involved in public sector tendering
<i>Compare</i> and contrast different supplier size types across the following dimensions: Attributes and objectives of firms tendering for public sector contracts Steps taken to improve chances of winning public sector contracts
<i>Examine</i> the experienced impacts (if any) of the implementation of policies and reform initiatives
<i>Identify</i> barriers to competing in the public sector marketplace
<i>Gauge</i> opinion of the impacts of EU public procurement directives

5.3.4

The Response rates are outlined in Table 2 below. It was interesting to note the increase in response rates over the past two years.

Tab. 2 - Response rates

	Feb 2013	December 2011	% Increase
Suppliers	5211	4235	+23%

5.3.5

In the following section we have included some of the findings from public sector buyers as they reflect the activities carried out in ensuring SME / Micro Enterprise access to public procurement.

Distribution in award of contracts unchanged

Over 46% of procurers estimated that at least 3 out of every 4 contracts awarded by them went to Irish SMEs. This is identical to 2012 Over 44% awarded no contracts to foreign-based suppliers versus 45% in 2012

Reduced importance of socio-economic considerations

Innovation, SME access, local economy sustainability, environmental protection, and engaging with the not-for-profit sector have all decreased in their perceived importance to procurers relative to 2012

Implementation of SME-friendly measures unchanged

The implementation of SME-friendly measures shows little difference from 2012

33% agree that they break contracts into lots whenever possible versus 29% in 2012

88.5% ensure qualification criteria used are proportionate and relevant versus 90.5% in 2012

34% encourage joint bidding among suppliers versus 31.5% in 2012 3

Slight increase in use of e-procurement applications

35% use e-invoicing in 2013 versus 32% in 2012 21% use low value purchase cards versus 17% in 2012 5% use e-auctions versus 3.6% in 2012

Slight decrease in use of NPS standardised documents

48% are making use of standardised tender documents issued by the NPS versus 52% in 2012

Increase in provision of feedback

86% of procurers offer feedback most or all of the time versus 76% in 2012 84% agree that feedback is beneficial to firms’ ability to tender versus 90% in 2012

Changing perceptions on the impact of EU directives

58% think public procurement directives have improved transparency in the procurement process versus 69% in 2012 27% think SME participation has been positively affected versus 19.5% in 2012 37% think competition between suppliers has intensified versus 33% in 2012

Negative turn in sentiment

40.5% of procurers now think public procurement in Ireland has become less business friendly versus 33.6% in 2012

5.3.6

The main portion of the data is made up of supplier responses.

Key findings included , that there was No change in the make-up of supplier population and that Sector distribution still similar.

Tab. 3 - Makeup of Suppliers

Firm size	% 2013	% 2012
Micro (1-9 employees)	50.8	51.2
Small (10-49 employees)	24.7	23.7
Medium (50-249 employees)	13.3	13.4
Large (250+ employees)	11.3	11.7
Firm turnover €	% 2013	% 2012
Less than 2 million	61.8	62.6
2-10 million	19.1	17.5
10-50 million	10.2	10.5
50+ million	8.9	9.3

Tab. 4 - Sectoral and Regional Foci

Sector (Top 3)	% 2013	% 2012	
Professional services	22.3	31.2	31.2
Construction	15.2	17.8	
IT	10.8	12	12
Firm type	% 2013	% 2012	
Local	13.5	13.3	13.3
Regional	16.6	17	
National	48.2	49.7	49.7
International	21.8	20	

Irish-based firms still numerically dominant

76% of firms are Irish-based versus 80% in 2012

Typical value of contract

Just over 70% of all firms typically tender for contracts valued at not more than €130,000 versus 63% in 2012

Experience in public sector tendering

The average experience level of firms tendering for public sector contracts is 13 years. Tendering experience is related to firm size. Micro enterprises have an average of 8.6 years, small enterprises have 14.2 years, medium-sized enterprises have 20 years and large firms have 28 years.

Frequency of tendering

The average annual number of tenders submitted by firms was 10.4. Frequency of tendering is related to firm size. Micro-enterprises submitted 5 tenders, small enterprises submitted 11.5, medium-sized enterprises submitted 19.6 and large enterprises submitted 31.

Success rates

The average success rate in competing for public sector contracts is 44%. Micro-enterprises are at the average, small and medium-sized enterprises are slightly below the average and large firms, at 53%, are above the average.

Public sector contracts as % of annual turnover

Public sector contracts as a percentage of firms' annual turnover averages 19%. The range is from 16.3% for micro-enterprises to 26.6% for large enterprises.

Greater importance attached to feedback

On average firms received feedback on 36% of the tenders submitted. Obtaining feedback is size related. Micro-enterprises obtained feedback on 28% of tenders, small enterprises 41%, medium-sized enterprises 48% and large enterprises 57%. Over 80% of suppliers agree that receiving feedback helps them to improve future tenders versus 54.5% in 2012.

e-Advertising remains primary information source

93% of firms find out about public sector contracts through www.etenders.gov.ie. This is identical to the 2012 reported figure.

Same barriers persist

The costs of compiling a tender (incl. time) remains the number one barrier cited by firms

More positive on SME-friendly measures

Experience of SME-friendly measures show some improvement relative to 2012 reported experiences. 30% of firms agree/strongly agree that contracts are divided into lots in order to facilitate SMEs versus 23% in 2012.

Increase in policy awareness

Over 23% of suppliers claim familiarity with Circular 10/10, which is designed to facilitate SMEs in the public procurement marketplace versus 15% in 2012.

EU Public Procurement Directives

Firms are largely unaware of the impact of EU public procurement directives on such issues as transparency in procurement, SME participation, competition between suppliers, and the costs involved in tendering. This lack of awareness is similar to 2012 findings. Similar to 2012 findings, the cost of legal representation also remains the biggest obstacle to firms in taking a legal challenge under the Remedies Directive.

Deterioration in overall assessment of public procurement

47% believe that procurement in Ireland has become less business friendly versus 43% in 2012

6.0 Discussion of Results

6.1

Using data from SMEs competing for contacts with Irish public sector organisations a number of relationships concerning size and SME tendering were examined. Results of the statistical testing show that size significantly influences the tendering resources, behaviour and success of SMEs. Firstly, the analysis reveals that micro, small and medium-sized enterprises are not similarly endowed with resources for tendering. This is evident in tendering experience, number of persons involved in tendering, and propensity to avail of tender-related training. On each of these three dimensions size is shown to significantly influence SMEs' capacity for tendering. Micro-enterprises are found to be least experienced with SME's on average having 11.4 years more tendering experience than micro-enterprises and 5.7 years more tendering experience than small firms. The number of employees involved in tendering also shows strong variation within the SME population.

6.2

Viewed from a different angle, a minority of micro-enterprises use team-based approaches when tendering but a majority of small and medium-sized enterprises use teams. Participation in training is also found to be dependent on SME size. While the uptake of tender-related training among SMEs is low, almost one of every three medium-sized enterprises availed of such training in 2012 but this figure reduces to 19 percent for small firms and 12 percent for micro-enterprises.

6.3

While 84% of micro-enterprises typically compete for contracts under €130,000, this reduces to 64 percent for small firms. Conversely, a majority of medium-sized enterprises, 55 percent, typically compete for contracts in excess of €130,000. Size is also shown to be influential in how SMEs behave after the award of a public sector contract. Based on 2012 tendering activity, 28 percent of micro-enterprises secured feedback on submitted tenders. The comparable figures for small and medium-sized enterprises are 41 percent

and 48 percent respectively. The fourth and final dimension on which size and SME tendering behaviour is analysed is contract sourcing. Consistent with the emerging pattern, micro-enterprises source less public sector contract opportunities online (58 percent) compared to small enterprises (62 percent) and medium-sized enterprises (63 percent). It is of note that no statistically significant difference is observed between small and medium-sized enterprises in the extent to which they source contracts online.

6.4

Reported tendering outcomes are not uniform across SME size. To begin with, between group differences are statistically significant in respect of the percentage of SME revenue attributable to public sector contracts. Thus, size is found to influence the proportion of SME revenue derived from doing business with public sector organisations. Perceptions of success in tendering also exhibit variation across SME size. The mean differences between all SME size groups are statistically significant. Micro-enterprises have the lowest perception of success, reporting a score of 2.7 out of 7.

6.5

To summarise, the evidence adduced here supports the contention that size is significant in influencing SME tendering. When it comes to SMEs' tendering resources, behaviours, and outcomes size matters. This is especially true of tendering experience, number of tenders submitted annually, and perceptions of success, as suggested by the high F-ratios in each case. Moreover, a distinct pattern emerges from the data. Specifically, the smallest of the SME population, micro-enterprises, are found to be most resource disadvantaged, least active in tendering, and have the lowest rates of success. The opposite is true of the largest SME subgroup, medium-sized enterprises, which are shown to have the strongest resource capacity for tendering, the most active engagement in the public sector marketplace, and the most successful outcomes.

6.6

This leads to the conclusion that while variation exists across SME size categories, it is most pronounced between microenterprises and the other two SME groups. The implications of these findings for scholarship and for policy-practice are elaborated on in the concluding section.

6.7

SMEs are central to discourse on public procurement but efforts to explicate their role as suppliers have rarely gone beyond identification of the barriers they encounter or their resource disadvantages relative to large corporations. In focusing on SME disadvantage extant scholarship has overlooked and even discounted disparities in tendering capabilities and behaviours within the SME population. The effect has been to create an artificial impression of SME uniformity as tenderers for public sector contracts. Furthermore, it has contributed to a widespread belief that SMEs, irrespective of their size, sector, ownership structure, or growth intentions are amenable to the same policy remedies. Taking a tentative first step to address this ‘insidious assumption of homogeneity’ (Pett, Wolff and Sie, 2012), we examined the relationship of size to SMEs’ tendering resources, behaviour, and outcomes. Our findings lend support to the position that SMEs do not constitute a single, monolithic entity in public sector tendering and should not be treated as such. This has important implications for research going forward. It suggests the desirability of more fine-grained analyses, with size, sector, age, owner profile, market coverage, legal status, and geographic scope among some of the variables deserving of greater consideration when researching at the SME-public procurement interface. Continued reliance on SME as the unit of analysis means that significant differences within the SME population will remain hidden. As the findings presented here clearly demonstrate, significant variation exists in tendering resources, behaviours, and success outcomes across SMEs of different sizes. In the interests of advancing knowledge of SMEs and their tendering activity, greater attentiveness to size and other organisational variables is strongly recommended.

6.8

Coming out of this research is a salutary reminder not to presuppose that SMEs are uniformly disadvantaged when competing for public sector contracts. Implied or assumed in foregoing studies on public sector tendering is a uniform level of disadvantage experienced by SMEs relative to larger corporations. Our findings clearly suggest that disadvantage within the SME population is as real as that existing between SMEs and large corporations.

6.9

As SME tendering activity appears to be strongly associated with size, the question arises as to whether ‘SME-friendly’ policy as currently concei-

ved is too blunt an instrument to be effective? In the absence of longitudinal data on this matter any answer would be premature and speculative. While 'SME-friendly' policies may improve the general environment for public sector tendering, it is more difficult to discern how they are capable of simultaneously advancing the interests of micro, small and medium-sized enterprises given the differences in tendering abilities and behaviours that exist between them. If current policy is too generic, are bespoke supports for SME subgroups, micro-enterprises especially, the way forward? Again, this question has no easy answers. Arguments in favour centre on the disparity in tendering resources between micro-enterprises and other SME types. In particular, a case can be made that if micro-enterprises are to increase their involvement in public sector tendering they require support measures matched to their idiosyncratic resource constraints, abilities and growth intentions. Against this, multiple 'SME friendly' policies may have the effect of introducing additional complexity into the institutional environment (Nooteboom, 1993), not a development SMEs are likely to welcome. As studies suggest that 'SME-friendly' policies have not translated into practice in a systematic way (Flynn et al, 2013; Loader, 2013) and can even confuse and frustrate public buyers (Morgan, 2008; Qiao, Thai and Cummings, 2009), consideration of a new policy architecture will have to be broached cautiously.

6.10

The findings of this research are prosaic but their implications are important. Essentially, they attest to the importance of size as a significant influence on SME tendering. At a higher level, they reinforce the desirability of research and policy at the SME-public procurement interface moving beyond a simple dichotomy of SMEs versus large firms. Several promising lines of inquiry present themselves for future consideration. As a starting point, the influence of organisational variables other than size on SME tendering are deserving of empirical investigation. The identification of micro-enterprise disadvantage in tendering is also resonant with contemporary lines of SME inquiry. In the domain of finance, for example, Beck, Demirguc-Kunt and Maksimovic (2006) determine that size is significant in explaining the extent to which firms are constrained by financial, legal and corruption barriers. Furthermore, a number of studies have variously examined how size affects SMEs' adoption and deployment of ICT (Admiraal and Lockhorst, 2009; Jones et al, 2012; Laukkanen, Sarpola and Hallikainen, 2007; Levenburg, 2005). Most recently, Jones et al (2012) focused on the experiences and practices of sole-proprietor micro-enterprises and their idiosyncratic ICT needs and preferences. Now added to these observations and contemporary lines of inquiry is our demonstration that SME

size significantly influences tendering activity. It is hope that a further survey will be carried out this year 2013/14 in order to establish if these findings as analysed are unique within the short timeframe observed or will they carry over a three year period. If they are seen to carry over the three year period a different approach to policy development for SME / Micro Enterprise engagement will be needed.

*Davis Paul ,
Procurement Research Center,
Dublin City University,
paul.davis.dcu@gmail.com*

*McKevitt David,
Procurement Research Center,
Dublin City University,
david.mckevitt@gmail.com*

*Flynn Anthony,
Procurement Research Center,
Dublin City University,
anthony.flynn.dcu@gmail.com*

Abstract

Small and Medium Size Enterprises have been the subject of much scholarly research. There has however little attention been paid to the influence of size within the SME sector to the success of organisations winning public sector contracts. Micro-enterprises which make up over 50 % of the SME sector in Europe are not seen as a separate sector and as such public policy has lapsed in focusing on these enterprises. This paper builds on the scholarly work that has taken place on SME's and adds empirical evidence, firstly by describing the makeup of the public sector supply market and secondly by examining the relationship between size and success in public sector tendering. The paper explores two cross sectional survey encompassing over 4000 supplier responses for both surveys and analyses the first survey for statistical evidence of the influence of size on public sector tendering. We draw the conclusion that the research to date has not focused on the main sector of micro-enterprises and that they are in fact the unseen entity in public procurement policy.

Riassunto

Le Piccole e Medie Imprese (PMI) sono state oggetto di molte ricerche nell'ambito del Public Procurement. Tuttavia, scarsa attenzione è stata dedicata all'influenza della dimensione aziendale all'interno della categoria delle PMI sulla capacità delle aziende di vincere un contratto pubblico. Le micro-imprese, le quali costituiscono circa il 50% delle PMI in Europa non sono state viste come un'entità separata rispetto alle altre PMI e, pertanto, le politiche pubbliche non hanno avuto un focus specifico su questa categoria di imprese. Questo lavoro prende come punto di partenza la base di conoscenza sul ruolo delle PMI nel public procurement e aggiunge evidenza empirica, da un lato descrivendo la struttura del mercato delle forniture pubbliche in Irlanda, dall'altro esaminando il nesso tra dimensione dell'impresa e successo nel public procurement. Il lavoro empirico si basa sui risultati di due indagini su larga scala che hanno coinvolto oltre 4000 aziende. In particolare, i risultati della prima indagine sono usati per ottenere evidenza statistica sulla relazione tra dimensione delle PMI e tasso di successo. I nostri risultati ci portano a concludere che ad oggi la ricerca ha ignorato le micro-imprese, che rappresentano delle entità sconosciute alla politica sul public procurement.

JEL Classification: H

Keywords (Parole chiave): micro-enterprises, public procurement, sme's , tendering, policy (micro-imprese, appalti pubblici, PMI, offerte).

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